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Central Intelligence Agency



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## DIRECTORATE OF INTELLIGENCE

8 November 1983

CHINA-US: DIM PROSPECTS FOR FULFILLING THE LTA [ ]

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## Summary

*This year China will fail to honor the 6-million-ton minimum grain purchase called for in the US-China long-term grain agreement (LTA). US grain sales to China were cut in half this year because of the textile trade dispute and cheaper supplies from other grain-exporting countries. There is also growing concern among grain traders that US sales to China in 1984, the last year of the LTA, will fall below the agreed amount. Large purchases from other exporters, record domestic harvests, and a reported 1 million tons of grain stored aboard Chinese ships all suggest China will not carry over any shortfall of 1983 purchases into 1984.* [ ]

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Total Chinese purchases of US grain for 1983 now stand at 3.8 million tons, 60 percent wheat and the rest corn. Foreign Minister Wu Xueqian recently stated that China will continue to purchase grain during the remaining months of the year, but we believe China will buy no more than an additional 1 million tons. In any case, it would be impossible for China to take delivery of the rest of the 6 million tons before the end of the year. Embassy Beijing reports that, in early October, officials in north China ports indicated that no increase in shipments of US grain was expected. [ ]

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The Chinese normally honor LTAs, even though they have told US traders that they view them more as general purchasing guidelines than firm commitments. This is the third year of the

*This memorandum was prepared by [ ] of the China Division of the Office of East Asian Analysis. It was coordinated with the Office of Global Issues. Questions and comments are welcome and may be directed to the Chief, Domestic Policy Branch at telephone [ ]*

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US-China LTA, and sales were well above the 6-million-ton minimum in both 1981 and 1982 (totaling 16.6 million tons for the two years). The only previous problem arose in 1981 when corn sales were only 6 percent of total sales; the LTA calls for approximately 15 to 20 percent of total sales in corn. [ ]

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Problems with this year's sales began in late 1982 when China stopped buying US grain because of record domestic harvests and cheaper prices from other suppliers. Grain sales took on a political dimension in early 1983 as difficulties arose over textile quotas. After the textile issue was resolved earlier this fall, however, many of the same economic factors which led to the initial cutoff remained. The US drought further complicated matters by driving up the price of corn. [ ]

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The Chinese have apparently committed themselves to purchase slightly more US wheat than has been officially registered. [ ]

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[ ] the Chinese have been purchasing contracts on the futures market through trading houses in order to conceal coming physical deliveries. Traders are reluctant to discuss this activity, but we believe such dealings are small and will have little or no impact on 1983 deliveries or on 1984 purchase levels. [ ]

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#### Prospects for 1984

During the 15 November bilateral consultations, we expect the Chinese to resist strongly making any commitment to purchase the LTA minimum in the final year of the pact. International grain traders are increasingly pessimistic that the United States will be able to persuade the Chinese to add any shortfall from 1983 sales to the 6-million-ton minimum for 1984. Assuming US sales of 6 million tons, [ ] China has already committed itself to 12-13 million tons of total grain imports in 1984, fulfilling its stated import plan. [ ]

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The Chinese have also argued, both in 1981 and so far this year, that purchases should be averaged over the four-year-life of the agreement. Such reasoning could lead Chinese officials to take an initial position that they need purchase only an additional 3.6 million tons of grain in 1984 to fulfill the 24 million tons "stipulated" for the four-year LTA. [ ]

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Good Chinese harvests are also discouraging imports. Last year grain output jumped 28 million tons to a record 353 million tons, and an even larger harvest is expected this year. In the past, China imported grain even in years with good domestic harvests in order to ease the strain on internal transport systems supplying major coastal cities. But the recent increase in grain production has filled much of China's grain storage, making it more difficult to move imported grain out of the port elevators. The full grain pipeline may have led to reports from international grain traders that China currently has 1 million tons of grain stored in vessels offshore. China's sizable

merchant fleet and current low charter rates make offshore storage an attractive option. The Chinese almost certainly will deliver any offshore grain next year before it deteriorates, further dampening prospects for US exports. [REDACTED]

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China's absence from the US grain market does not appear to be politically motivated. In fact, improved bilateral relations may be encouraging additional sales. This fall, for example, the Chinese twice purchased grain only days before the US Government was preparing a demarche over their absence from the market. These purchases probably were intended as assurances of China's presence in the market and as a means to delay any response from the United States. It is probable that small purchases will be made shortly before the 15 November consultations as well. [REDACTED]

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On the other hand, if the current countervailing duties case on textiles is not resolved to China's satisfaction, it will probably become an excuse for reduced purchases of US grain in 1984. The Chinese have claimed that US textile trade quotas caused the shortfall this year. [REDACTED]

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